

## Message Text

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22

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 XMB-04 OPIC-06 CIEP-02

LAB-04 SIL-01 OMB-01 /109 W  
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R 161638Z SEP 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC 0014

TREASURY DEPT WASHDC

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

UNCLAS ROME 15166

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: FIRST OF THE FISCAL MEASURES IS TO RECOUP LOST REVENUE

REF: A. ROME 14437 B. ROME 12738 C. ROME 12292

1. COUNCIL OF MINISTERS HELD ITS SECOND SESSION ON  
SEPTEMBER 14. MAJOR FISCAL MEASURE TO EMERGE IN ACCORDANCE  
WITH NEW SCHEDULE (REF A) WAS APPROVAL OF A DRAFT LAW  
DESIGNED TO RECOUP REVENUES WHICH HAD BEEN SUSPENDED IN  
JULY FOLLOWING THE ADVERSE RULING ON JOINT INCOME TAX  
RETURNS BY THE CONSITUTION COURT. OF AN ESTIMATED 900  
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BILLION LIRE AFFECTED BY THE SUSPENSION, APPROXIMATELY

400 BILLION ARE EXPECTED TO BE RECOVERED BY MEANS OF THE EMERGENCY PROVISION BEGINNING IN FEBRUARY 1977. TO FILL THE CASH FLOW GAP CREATED BY THE SUSPENDED TAX COLLECTIONS, THE COUNCIL OF MINISTERS ALSO APPROVED A MEASURE REQUIRING BANKS TO MAKE THRICE YEARLY (JULY, NOVEMBER AND FEBRUARY) PAYMENTS OF WITHHOLDING TAX ON INTEREST PAID ON DEPOSITS. THIS MEASURE IS EXPECTED TO PROVIDE APPROXIMATELY 420 BILLION LIRE OF THESE ADVANCE PAYMENTS IN NOVEMBER.

2. AS WAS ANTICIPATED IN PRIME MINISTER ANDREOTTI'S PROGRAM OUTLINE, THE COUNCIL OF MINISTERS STATED ITS INTENT TO PRESENT TO PARLIAMENT ON OCTOBER 5 A DRAFT LAW PROVIDING FOR TAXATION OF FAMILY INCOME WHICH WILL AVOID THE CONSTITUTIONAL PROBLEMS IN THE PROVISIONS OF THE TAX REFORM LAW OF 1971 WHICH REQUIRED FAMILIES TO FILE JOINT RETURNS.

3. IN ANOTHER MEASURE DESIGNED TO SMOOTH OUT CASH FLOW PROBLEMS OF THE TREASURY AS WELL AS TO STREAMLINE COLLECTION PROCEDURES, THE MECHANISM FOR PAYMENT OF VALUE-ADDED TAXES WAS SIMPLIFIED BY PERMITTING PAYMENT TO BE MADE THROUGH THE BANKING AND POSTAL SYSTEMS AS WELL AS DIRECTLY TO THE TAX COLLECTORS BEGINNING JANUARY 1977 WHEN THE TAX IS NEXT DUE.

4. COMMENT. WHILE NO MAJOR FISCAL MEASURES HAVE YET BEEN APPROVED BY THE COUNCIL OF MINISTERS, THOSE TAKEN ON SEPTEMBER 14 WERE NECESSARY IN ORDER TO MEET A SHORTFALL IN REVENUES RESULTING FROM THE COURT RULING ON THE LEGALITY OF JOINT INCOME TAX RETURNS. THEY WILL AT THE SAME TIME PROVIDE FOR A MORE ORDERLY CASH FLOW TO THE TREASURY AND CONSEQUENT REDUCTION IN SHORT-TERM FINANCING REQUIREMENTS. REDUCTION OF GOVERNMENT EXPENDITURES WAS REPORTEDLY ALSO DISCUSSED AT THE SEPTEMBER 14 MEETING AND SPECIFIC MEASURES ARE WIDELY EXPECTED TO BE APPROVED AT THE NEXT COUNCIL MEETING ON SEPTEMBER 21. BEAUDRY

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